

A New Chairman in Town

The chair of the House Financial Services Committee outlines to America's board directors his priorities for remedying Dodd-Frank.

Jeffrey M. Cunningham

Congressman Spencer Bachus has reportedly brought a degree of Southern hospitality as chairman of the powerful House Financial Services Committee. Following a heated exchange between Rep. Bill Posey (R-Fla.) and Securities and Exchange Commission Chairman Mary L. Schapiro during her testimony before the Committee, Bachus asked lawmakers to exhibit proper regard for witnesses. "The witnesses are not on trial, and I think they're due a certain amount of decorum and respect," Bachus (pronounced "Back-us") said, noting that he was not directing his comments at any particular lawmaker.

The House Financial Services Committee has jurisdiction over banks, housing, consumer credit and capital markets. And the GOP leader, first elected to Congress 18 years ago, finally has the gavel in his hand. Re-elected to a 10th consecutive term in November, the 62-year-old lawyer from Vestavia Hills (population: 24,000) says he brings a Main Street, not a Wall Street, perspective to his expanded duties on Capitol Hill.

The son of an engineer on the old Southern Railroad who keeps a collection of model trains on display in his office, Bachus has spent the last four years as the ranking Republican on the Financial Services Committee, the counterpart to chairman Rep. Barney Frank (D-Mass.). In his quiet campaign for the chairmanship, Bachus promoted an agenda to end taxpayer subsidies for mortgage giants Fannie Mae and Freddie Mac; voted to repeal Obamacare, which he views as both bad policy and unconstitutional; repeal those Wall Street

reforms that he thinks still leave open the door for taxpayer bailouts of financial institutions or their creditors and increased oversight of President Barack Obama's Administration. "Now is the time to get government out of the way so businesses can create jobs and grow the economy," Bachus has said.

Another priority is bringing an end to "too big to fail." The Dodd-Frank Act, according to a statement on the Committee's website, "wrote too big to fail into law, placing taxpayers at risk for future bailouts. The Committee will examine the taxpayer exposure of the bailout authority created under this law."

Since becoming chairman, Bachus has made several key appointments to Financial Services subcommittees, vowing to bring more voices—including those of nearly a dozen newly elected representatives—into the debate. He named Rep. Ron Paul (R-Texas), whose push to end the Federal Reserve may now have some ballast, to chair the subcommittee that oversees the Fed.

Bachus understands the important and influential role that directors play in their oversight of America's public companies. He is one of a growing number of legislators to go on the record with the NACD and recently consented to an interview with *NACD Directorship's* Jeffrey M. Cunningham. In the interview, Bachus outlines his legislative priorities: a desire to end spiraling deficit spending will require that he dare touch the dangerous "third rail of politics" and curb entitlement programs.

The Obama Administration's plan to gradually dissolve ailing housing giants Fannie Mae and Freddie Mac and to shrink the government's role in

the mortgage market has drawn praise from House Republicans. Bachus has said the intent is to move quickly on a bipartisan bill to overhaul the U.S.-run mortgage companies.

face opposition in the Senate, where Democrats hold the majority. Michael Oxley, who as chair of the House Financial Services Committee in 2002, co-authored the seminal Sarbanes-Oxley

Act of 2002, predicted that Bachus would have a difficult time revising Dodd-Frank. "Usually when Congress passes a major piece of legislation it is very difficult to revisit it any time soon, unless there is a sunset provision, which is not the case here," Oxley said in an interview with *NACD Directorship*. "So I think most of the debate will be carried out at the regulatory level. In virtually every area, with some broad strokes as guidelines, Dodd-Frank was given over to regulators to administer."

President Obama is also unlikely to approve any major changes in one of the signature laws of his first two years in office. Even so, the GOP Congressman from Alabama is undeterred.

What was your reaction to becoming the first Alabamian to hold the Financial Services chairmanship since the 1800s?

It is a great honor to have the support of my constituents, Speaker Boehner and my Republican colleagues, so I can serve as chairman of the Financial Services Committee. If I do my job well, hopefully Alabama won't have to wait another 140 years for another committee chairman!

How did you interpret the 2010 election from a political perspective?

The American people did not like what was going on in Washington and they demanded a change in direction. That's what the 2010 elections were about. The American people saw a record-breaking spending binge going on in Washington, which resulted in a record-breaking budget deficit and a national debt that has grown to once unthinkable levels. In fact, during the previous four years before the 2010 election, our



Bachus at a press conference to push for the dissolution of Fannie Mae and Freddie Mac.

In early February, Bachus began circulating to committee members for comment a 20-page oversight plan for Dodd-Frank's new rules. Bloomberg News reported that Committee members will monitor regulators who are writing language to enforce the so-called Volcker Rule, which limits proprietary trading by banks, to "ensure that it does not result in unintended consequences" for jobs and markets, according to the draft. The panel also will "examine whether federal regulators will impose margin and capital requirements on non-financial firms that use derivatives to hedge legitimate business risk...and assess the results of the implementation of the Dodd-Frank Act to improve those parts of the act that work well while changing those that do not," according to the proposal. The panel will "identify and remedy unintended consequences." If Republicans push for legislative changes, they will likely

national debt doubled. The American people want us to reduce government spending because they intrinsically understand the path we're on right now is unsustainable. Real changes and hard decisions must be made. Republicans have gotten that message and our majority in the House is working to fulfill the people's mandate. It's certainly not going to be easy, but we have no choice. President Obama recently started using the slogan "Win the Future" to describe his spending programs. But America is not going to win the future if we force our children and grandchildren to inherit a mountain of debt.

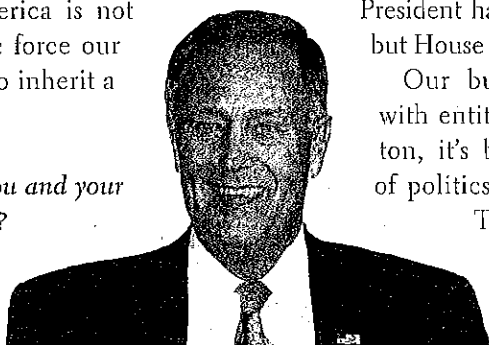
Which economic issues will you and your colleagues be most focused on?

The main objective of House Republicans right now is to get the nation's fiscal house in order so the private sector can grow and create jobs. Our economy will not be healthy until people who want to work can get a job. Making sure the climate is right for people to get jobs is our job.

How do you plan to make that happen?

Excessive government spending and borrowing play a key role in our economy's uncertain outlook. It crowds out private sector investment, sows uncertainty for job creators and erodes the confidence that is necessary for job growth.

Yet, under the President's own budget projections, the federal government would spend \$46 trillion over the next 10 years. That would double the national debt by the end of his term and triple it by the end of the decade.



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— Michael Oxley

done on a bipartisan basis. The Democrats will have to be convinced to join us in this effort for the good of our country.

What are the details of your proposal?

If we're going to get serious about reducing the deficit and the debt, we must confront the need for entitlement reform. Non-defense discretionary spending is only 16 percent of our budget. You could eliminate all of it and still face an overwhelming problem. Every American who cares about the future of our country should be disappointed that the President chose to punt by not including entitlement reform in his budget proposal. The President has failed to lead on this issue, but House Republicans will.

Our budget will specifically deal with entitlement reform. In Washington, it's been called the "third rail" of politics. You touch it and you die.

That means we're going to have to make a case to the American people that delaying entitlement reform will only make matters worse. By acting now, we can fulfill the mission of health and retirement security for all Americans and can keep the promises we've made to our children. But Americans also need to realize that Republicans do not "run" Washington.

What are the political implications?

We have only the House. The Senate and the White House are still controlled by Democrats. So any chance there is of doing something fundamental to control the growth of entitlement spending will have to be

Committee Oversight

The House Financial Services Committee has jurisdiction over all issues pertaining to the economy, banking system, housing, insurance, securities and exchanges.

The Committee also has jurisdiction over monetary policy, international finance, and monetary organizations and efforts to combat terrorist financing.

Agencies under Committee oversight include the Federal Reserve, Treasury, Federal Deposit Insurance Corp., SEC, National Credit Union Administration, Office of the Comptroller of the Currency, Department of Housing and Urban Development, Federal Housing Finance Agency and the Export-Import Bank.

Timeline

Dec. 28, 1947 Born in Birmingham, Alabama

1969 Earned Bachelor of Arts degree at Auburn University

1969-1971 Served in the Alabama National Guard

1972 Earned Juris Doctor from University of Alabama

1983 Elected to the Alabama State Senate

1984 First elected Republican to Alabama State House of Representatives since Reconstruction

1986 Managed the Guy Hunt gubernatorial campaign

1987-1991 Held membership as the first Republican on the Alabama Board of Education

1990 Ran for Alabama Attorney General

1992 Chaired the Alabama Republican Party

1992 Elected Congressman from Alabama's 6th District to the U.S. House of Representatives; now serving 10th term

2002 Helped establish the Cahaba River National Wildlife Refuge

2003 Authored Fair and Accurate Credit Transactions Act

2010 Named chairman of the House Financial Services Committee

Sources: <http://bachus.house.gov>; <http://congress.org>; <http://www.privacyrights.org>; <http://www.fws.gov/refuges/profiles/>

What should we expect in terms of change in perspective from the past?

The view I bring as chairman, and it's different than Barney Frank's, is a belief that our free enterprise system, based on consumer choice, competition and individual initiative, is better for Americans than a "command-and-control" government system.

Which sectors of the financial services industry will get the most of your attention and why?

Every sector under our jurisdiction will receive the committee's attention. When the Democrats were the majority, it was a rare event when a subcommittee held a hearing. The Democrats also neglected the committee's important oversight responsibilities. They never called on the Administration to answer questions concerning programs and bailouts that they initiated.

But aren't there structural hurdles in how the subcommittees traditionally operate?

We are going to change that. We restructured our subcommittees to allow for a more balanced workload. Under my chairmanship, the subcommittees are playing a vital role in convening hearings and debating key issues. We are fortunate to have a strong committee leadership team that works well together. We will benefit from the expertise of all of our members, including our freshmen. We have nearly a dozen freshmen Republicans on the committee whose backgrounds in banking, business and real estate add a great deal to the panel. The inclusive approach we're taking allows all members of the committee to be heard. That's a significant change from the past.

To what extent are Fannie Mae and Freddie Mac a subject of focus and why were they excluded from Dodd-Frank reforms?

For several years before the financial crisis, the Democrats stalled meaningful GSE reform. Then, even though these GSEs were a proximate cause of the crisis, the Dodd-Frank Act did nothing to reform Fannie Mae and Freddie Mac.

Back in 2009, House Republicans were the first to introduce a comprehensive financial regulatory reform bill. We also introduced five additional bills that would unwind the operations of Fannie and Freddie and reform the housing finance system. One of those bills addressed the multimillion-dollar compensation packages for the executives at Fannie and Freddie that the Administration approved. On Christmas Eve 2009, the Administration rewarded the executives of Fannie Mae and Freddie Mac with \$6 million pay packages at taxpayer expense. Our bill would have reduced the pay significantly by having the federal GS-level pay scale apply to these executives.

During the Dodd-Frank debate, Republicans offered several amendments to the bill that would have added GSE reform. Democrats voted down each amendment. Despite Republican protests, Dodd-Frank left Fannie and Freddie untouched.

How will the approach to the GSE's change under your oversight?

Reforming Fannie and Freddie is a priority for the Committee. When Treasury released its report on housing finance reform in February, Republicans were pleased that it included some ideas we had already proposed. In a recent hearing, I told [Treasury] Secretary [Timothy] Geithner that Republicans on the committee want to work with the Administration to find some common ground so we can move GSE reform forward. But I also said we cannot look at Fannie and Freddie in isolation. We need comprehensive reform of housing finance,

which must include the Federal Housing Administration and have as its ultimate goal a system based on private capital, not taxpayer subsidies.

How do you feel about the Financial Stability Oversight Council—and the law naming systemically significant firms as “too big to fail”?

The government identifying so-called systemically significant firms is very troubling for several reasons. First, it sends a message to market participants that the government will step in and bail out these firms. It enshrines “too big to fail” into law. Next, by saying some firms are “systemically significant,” the taxpayer is viewed as the backstop of the financial markets. This implied guarantee creates new government-sponsored enterprises. We all saw how the implied government guarantee of Fannie Mae and Freddie Mac ended with the biggest taxpayer bailout ever. Third, the identification of being “systemically significant” is unfair because it confers significant competitive advantages while hurting our “too small to save” institutions.

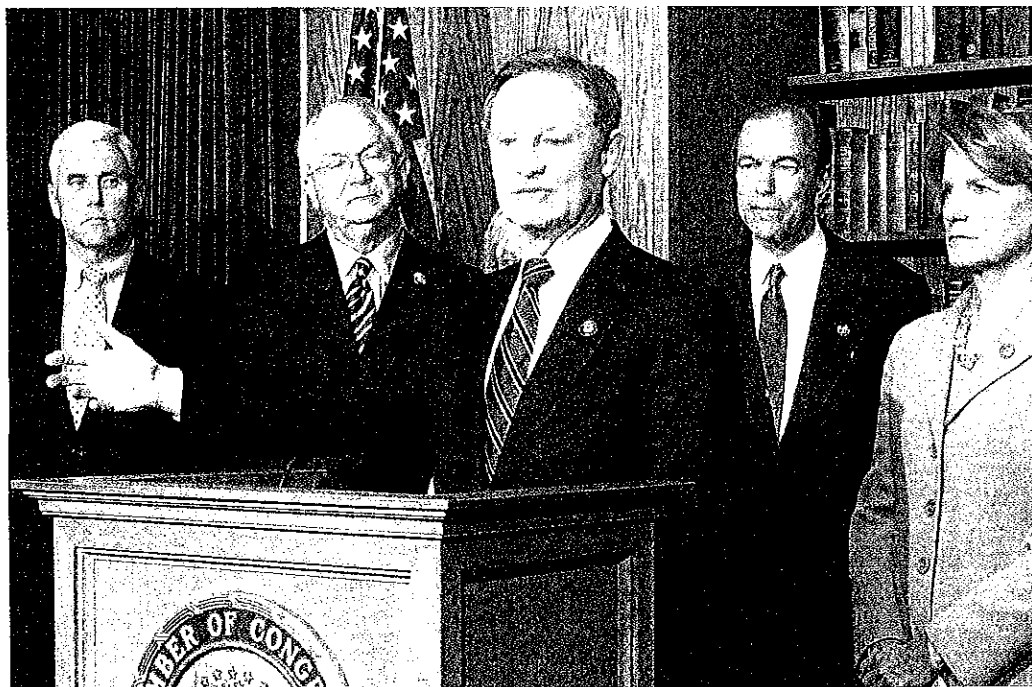
Are you opposed to the Volcker Rule against proprietary trading on the part of banking houses?

During the Dodd-Frank conference committee deliberations, I expressed the view that the Volcker Rule appeared to be a solution in search of a problem, and that its implementation could result in costs to consumers and our economy that far outweighed its benefits. Proprietary trading had virtually nothing to do with the financial crisis. It is therefore doubtful that the Volcker Rule will make the U.S. financial system any more stable, but it will impose substantial costs on the American economy and market participants.

The use of derivatives to hedge business risk has also come under scrutiny. Do you think this area is overdue for some rational review?

The burdensome requirements imposed by the new rules governing derivatives contracts will seriously complicate efforts by U.S. companies to

manage business risks. The result, I believe, will be higher prices for consumers and fewer jobs for American workers. Undoubtedly, foreign markets are closely examining how U.S. regulators are implementing Dodd-Frank and stand ready to cre-



ate a competing non-punitive derivatives marketplace. The derivatives provisions will come at the cost of long-term damage to the ability of U.S. firms to compete in the global economy and create sustainable employment for American workers.

The SEC's budget issues are well known, and the outcry will most likely be they need the funds to do the job. How do you respond?

The Committee will soon receive a report that was mandated by the Dodd-Frank Act concerning SEC organizational reform. This report will help the Committee identify wasteful, inefficient and outdated regulatory programs and operations to better allocate the SEC's financial and human resources. Therefore, I believe any budgetary increases for the agency should wait until this study tells Congress about important changes that must occur within the Commission in order for it to be an effective supervisor of the U.S. capital markets. ■

Bachus speaks to reporters on the Republican plan for regulatory reform.